PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Item #18 (Rev. 1)
AGENDA ID 14543

ENERGY DIVISION **RESOLUTION E-4756**
January 14, 2016

R E S O L U T I O N

Resolution E-4756. Pacific Gas and Electric Submittal of Study Plan for Study of the Small and Medium Commercial Classes as Directed by Decision 15-08-005, Ordering Paragraph 10

PROPOSED OUTCOME:

- Approves, with modifications, PG&E's Study Plan for a data-rich analysis of the Small and Medium Commercial classes.

SAFETY CONSIDERATIONS:

- There is no impact on safety.

ESTIMATED COST:

- No incremental costs are identified.

By Advice Letter 4708-E Filed on September 28, 2015.

SUMMARY

This Resolution approves, with modifications, PG&E's Study Plan for a data-rich analysis of the Small and Medium Commercial classes, as directed by Ordering Paragraph (OP) 10 of D.15-08-005, which states:

> PG&E shall file a data-rich analysis of the Small and Medium Commercial classes in its upcoming General Rate Case Phase 2 application. PG&E shall (1) schedule a "meet and confer" session with parties to this proceeding, to take place within 30 days of the effective date of this decision, and (2) file a Tier 2 Advice Letter 45 days from the effective date of this decision, providing a detailed plan for the study, including a description of the data that will be analyzed. PG&E shall not proceed with its proposed study until the Advice Letter is approved by the Commission's Energy Division.

Specifically, this Resolution requires PG&E to:

- Consider three alternate demand levels (20 kW, 50 kW, and 75 kW) as possible maximum demands for eligibility for its Small Commercial rate schedules (A-1 and A-6), in combination with two alternate demand levels (200 kW and 500 kW) as possible maximum demands for eligibility for its Medium Commercial rate schedules (A-10 and E-19V), and
- Examine the (1) cost of service by segment, rate schedule, and by the above-stated class definitions, and (2) any relevant and appropriate demand charges, both coincident and non-coincident, that should be imposed on small and medium commercial customers depending on their level and pattern of demand. In particular, PG&E should examine the cost of service for A-1 and A-6 separately based on their rate-schedule-specific demand patterns, and justify any continuing assumption of revenue-neutrality between these rate schedules.

BACKGROUND

PG&E's 2014 General Rate Case (GRC) Phase 2 (A.13-04-012) resulted in a series of settlements, all but one of which (Small Commercial rate design) was unopposed. Decision 15-08-005 adopted these unopposed settlements, as well as, with modifications, the Small Commercial rate design settlement. At issue in the contested settlement was whether a 75 kW maximum demand should be established for PG&E's small commercial A-6 rate schedule, whether current A-6 customers with demands greater than 75 kW should be allowed to remain on A-6, and whether A-6 should be closed to new customers with maximum demands greater than 75 kW. A-6 is attractive to customers with on-site solar generation because it currently has no demand charge. Historically, PG&E has allowed customers as large as 500 kW to take service on A-6.[1]

[1] D.15-08-005, p. 27. The proposed 75 kW upper limit for A-6 would align A-6 with A-1 (the other major rate schedule serving small commercial customers). A-1 currently has a 75 kW upper eligibility limit. A-6 and A-1 rates are established on a revenue-neutral basis, even though A-6 is far more time-differentiated than A-1.

D.15-08-005 adopted, with modification, the Small Commercial settlement which specifies a 75 kW maximum demand limit for A-6 eligibility,[2] but allowed current A-6 customers to remain on A-6 regardless of demand, and closed A-6 to new customers over 75 kW, effective December 31, 2016. Further, D.15-08-005 directed PG&E to file "a data-rich analysis of the Small and Medium[3] Commercial classes in its upcoming 2017 GRC Phase 2 application" ("study"), and a Tier 2 Advice Letter providing a detailed plan for the study, including a description of the data that will be analyzed (the extant advice letter). The Decision also stated that "we expect an exhaustive examination of the question of relevant and appropriate demand charge or charges, if any, that should be imposed on small and medium commercial customers depending on their level and pattern of demand" and that "this study must also justify the appropriate limit for Schedule A-6."[4]

PG&E's Small and Medium commercial customers are mainly served under the following rate schedules: A-1, A-6, A-10, and E-19V. Currently, A-1 and A-6 have no demand charge, A-10 has a noncoincident demand charge only, and E-19V has both coincident (peak) and noncoincident demand charges. D.15-08-005 directed PG&E to re-examine its cost-allocation and rate design for each of these rate schedules.[5]

PG&E held the "meet and confer" as required by OP 10, on September 14, 2015.

[2] This settlement also obligates PG&E to develop all information necessary for filing quality revenue allocation for hypothetical eligibility thresholds regarding Schedules A-l and A-6 of 20 kW and of 50 kW.

[3] While the Medium Commercial rate design settlement adopted by D.15-08-005 was unopposed, the definition of a "Medium" commercial customer is unresolved. An earlier Commission decision defined this class as having maximum demand between 20 kW and 200 kW (see, D.08-07-045, COL 11). In any case, the study requirements of D.15-08-005 extend to both Small and Medium Commercial customers, even though the Medium Commercial settlement was not in dispute.

[4] D.15-08-005, p. 26. The Small Commercial settlement, as adopted in D.15-08-005, obligates PG&E to consider alternative upper limits for A-6 and A-1.

[5] "We reiterate that this study should comprehensively analyze cost allocation and rate design within the small *and medium* commercial classes." (D.15-08-005, p. 26, emphasis added)

NOTICE

Notice of AL 4708-E was made by publication in the Commission's Daily Calendar. PG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section 4 of General Order 96-B.

PROTESTS

Advice Letter AL 4708-E was timely protested jointly by the Solar Energy Industries Association (SEIA) and the California Solar Energy Industries Association (CALSEIA). A separate timely protest was filed by the Office of Ratepayer Advocates (ORA). PG&E responded to these protests on October 26, 2015.

SEIA/CALSEIA's Protest objects to PG&E's proposed use of adjusted <u>net loads</u> (i.e., gross loads net of solar, wind and hydro generation) for allocation of generation capacity costs <u>rather than gross loads</u> for the purpose of generation capacity cost allocation, and states: "<u>PG&E should be directed to perform the study using both net and gross loads for the allocation of generation capacity costs</u>…," (emphasis added). ORA's Protest raised the same issue, and also suggested parallel computations using both net and gross loads.

SEIA/CALSEIA (alone) raised a second point of protest, stating: "PG&E will produce cost allocation results limited to the following customer size segments: (l) up to 20 kW; (2) 20 kW to 50 kW; (3) 50 kW to 75 kW; and (4) 75 kW to 500 kW. … the last customer segment should be further divided such that PG&E presents results for the additional class segments of 75 kW to 200 kW and 200 kW to 500 kW … Such additional delineation will provide a more accurate and granular accounting of the cost of service of demand segments in the small and medium commercial customer classes."

In its Reply, PG&E agreed to perform parallel cost allocations using both gross and net loads, but declined to divide the requested 75 kW to 200 kW segment for cost allocation purposes, stating that …" the Commission has already set the threshold for small commercial customers at 75 kW. A further study of class segmentation should therefore be focused on establishing a threshold at that or lower levels." As discussed below, PG&E's Reply also implies that it intends to exclude A-10 and E-19V from certain components of the required study.

DISCUSSION

Our review of AL 4708-E leads us to the conclusion that some modification and clarification of scope of the proposed demand charge study is needed. The definition of small and medium commercial customers is a central issue in this advice filing. Neither D.15-08-005 nor PG&E's Advice Letter contains an explicit definition of Small and Medium commercial customers. PG&E's Advice Letter appears to propose 75 kW as its preferred demarcation between Small and Medium commercial customers, and 500 kW as its preferred boundary between Medium and Large customers. Yet, these proposed boundaries are inconsistent with the 20 kW and 200 kW boundaries adopted by D.08-07-045 for PG&E.[6] Further, they are inconsistent with the corresponding 20 kW and 200 kW boundaries used by SCE and SDG&E.

As stated in D.15-08-005, "this study must also justify the appropriate [upper] limit for Schedule A-6." By inference, we find that this requirement should also apply to A-1 because this rate schedule also serves small commercial. Separation of small and medium customers is not simply a distinction without a difference: D.15-08-005 adopts settlements that impose demand charges for medium commercial customers but not for small commercial customers.[7]

In accord with the Small Commercial settlement as adopted, PG&E's proposed study plan includes the study of alternative upper limits for its small commercial class: 20 kW, 50 kW, and 75 kW. We find this aspect of PG&E's study plan to be consistent with this settlement (and was not protested).

As explained in the SEIA/CALSEIA protest, PG&E stated in its Study Plan that it will develop an "analysis" of Small and Medium Commercial customers (i.e.

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[6] D.08-07-045, COL 11, states: "It is reasonable to subdivide commercial and industrial customer with maximum load less than 200 kW into two subgroups: those with maximum demand between 20 kW and 200 kW, referred to as medium C&I, and those with maximum demand below 20 kW, referred to as small commercial." These boundaries are also referenced in the body of that decision (p. 11, p. 21) and in Attachment B to that decision.

[7] As discussed in D.15-08-005 (p. 32), the most fully cost-based rates generally apply to the largest customers. Conversely, rates for the smallest customers are less cost-based and simpler, often mainly volumetric. Consistent with this pattern of distinguishing small commercial customers from others, the Commission found (D.08-07-045, FOF 22): "Small commercial customers require more time for customer education and outreach than do large and medium C&I customers."

non-residential customers less than 500 kW in size) in fixed increments of demand: 0 to 20 kW, 20 to 50 kW, 50 to 75 kW, 75 to 200 kW and 200 kW to 500 kW, but will only develop *cost allocation* results for the first three of these segments. The SEIA/CALSEIA protest asks that PG&E be required to also develop cost allocation results for the 75 kW to 200 kW and 200 kW to 500 kW segments. However, in its Reply to the protests, PG&E stated:

> "As part of this study described in Section 3.1, PG&E has agreed to include a 200 kW threshold by rate schedule (including Schedules A-10 and E-19V), however, the study described in Section 3.1 does not include an additional requirement for class level allocation results with a 200 kW threshold. Such a requirement for *class level allocation results* [emphasis in original] for Schedules A-10 and E-19V should not be added."

PG&E did not explain why such a requirement "should not be added", or would be inconsistent with the language of D.15-08-005 that: "…this study should comprehensively analyze cost allocation and rate design within the small and medium commercial classes."[8] We find that SEIA/CALSEIA's request in its protest, for a cost allocation analysis including the 75 kW to 200 kW and 200 kW to 500 kW segments is consistent with D.15-08-005 and should be granted.

Further, PG&E's Reply to the Protests states: "… available rate options for customers using less than 500 kW include Schedules A-10 and E-19 Voluntary (V), *neither of which was intended to be part of this study*" (emphasis added). We find no support for exclusion of A-10 and/or E-19V from the comprehensive analysis of "cost allocation and rate design within the small and medium commercial classes"[9] ordered in D.15-08-005, either in the Decision, the AL, its Attachment, or PG&E's Reply to the Protests.[10]

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8 D.15-08-005, p. 26

9 Id.

10 Attachment A to AL 4708-E splits the Study into two components: a "Cost of Service by Demand Segment and Class Definition" component, and a "Rate Design" component. According to PG&E's Reply to the Protests (p. 2): "PG&E has agreed to include a 200 kW threshold by rate schedule (including Schedules A-10 and E-19V), however, the [segmentation] study described in Section 3.1 [of Attachment A] does not include an additional requirement for *class level allocation results* with a 200 kW threshold. Such a requirement for class level allocation results for Schedules A-10 and E-19V should not be added" (emphasis in original). However, PG&E does not explain why such a requirement should not be added. We find PG&E's argument obscure and lacking support.

Based on the foregoing, we direct PG&E to also provide cost allocation and rate design results for the medium commercial class rate schedules A-10 and E-19V as limited to customers with maximum demands of 200 kW and below, consistent with D.08-07-045, COL 11, in addition to the 500 kW upper limit for the medium commercial class as suggested by PG&E. In summary, we direct PG&E's study to include A-10 and E-19V along with A-1 and A-6 in all of the studies required by OP 10 using the customer segmentations shown in Table 1 below.

Table 1: Required Scenarios and Customer Segmentations for PG&E's Study

<table>
<tr><td rowspan="2">Scenario</td><td colspan="2">To be included in the study</td><td>For reference only</td><td rowspan="2">Origin</td></tr>
<tr><td>Small
(A-1; A-6)</td><td>Medium
(A-10; E-19V)</td><td>Large
(E-19; E-20)[11]</td></tr>
<tr><td>1</td><td>0-20 kW</td><td>20 kW – 200 kW</td><td rowspan="3">200 kW and up</td><td rowspan="3">As ordered in this resolution</td></tr>
<tr><td>2</td><td>0-50 kW</td><td>50 kW – 200 kW</td></tr>
<tr><td>3</td><td>0-75 kW</td><td>75 kW – 200 kW</td></tr>
<tr><td>4</td><td>0-20 kW</td><td>20 kW – 500 kW</td><td rowspan="3">500 kW and up</td><td rowspan="3">As proposed by PG&E</td></tr>
<tr><td>5</td><td>0-50 kW</td><td>50 kW – 500 kW</td></tr>
<tr><td>6</td><td>0-75 kW</td><td>75 kW – 500 kW</td></tr>
</table>

We direct PG&E to examine the appropriate cost allocation and demand charge or charges, if any, that should be imposed on small and medium commercial customers depending on their level and pattern of demand, including A-1, A-6, A-10, and E-19V, and including the question of whether both coincident and non-coincident demand charges should be included in those rate schedules (or neither).[12] PG&E's cost allocation studies for A-1 and A-6 should be based on the separate demand patterns of each of those rate schedules. PG&E should use both gross and net load in its cost allocation studies, as requested in both ORA's and the SEIA/CALSEIA protests, and agreed to in PG&E's reply.

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[11] The study is intended to include only Small and Medium commercial customers as defined in Table 1. Large commercial customers above the indicated size thresholds (200 kW for Scenarios 1-3 and 500 kW for Scenarios 4-6) are to be excluded from the study. In particular, E-20 customers should be excluded from the study.

[12] A-1 and A-6 currently have no demand charges; A-10 has a non-coincident demand charge (only); and E-19V has both coincident and non-coincident demand charges.

In its rate design analyses, PG&E should bear the following principles[13] in mind:

- Fully cost-based rates typically include both coincident and non-coincident demand charges. Examples of fully-cost-based rates include PG&E's large commercial rate schedules E-19 and E-20, as well as PG&E's rate schedule E-19V serving medium commercial customers.
- Rates for the larger customers should be fully cost-based. In contrast, it may be appropriate for smaller customers to have simpler rates that are less than fully cost-based.

PG&E currently sets A-1 and A-6 rates on a revenue-neutral basis. Because A-6 rates are fully time-differentiated while A-1 rates are only mildly time-differentiated, customer self-selection might cause these customer groups to differ in their cost of service. Therefore, it is reasonable that PG&E's study should assess whether rate schedules A-1 and A-6 should continue to be set on a revenue neutral basis to each other.

COMMENTS

Public Utilities Code Section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

Comments were timely received from PG&E and SEIA. PG&E requested that the Draft Resolution and Table 1 of that resolution be modified to clearly exclude Schedule E-20

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[13] See, for example, the discussions in D.14-12-080 and D.15-08-005 at pp. 31-32.

from the study. SEIA requested that certain language that it considered prejudicial to its desired outcome be stricken from the draft resolution. We make the requested changes.

FINDINGS

1. Pacific Gas and Electric Company filed Advice Letter 4708-E proposing a Study Plan for a "data rich" analysis of cost allocation and rate design for its Small and Medium commercial customers, pursuant to D.15-08-005, OP 10.
2. Neither D.15-08-005 nor PG&E AL 4708-E provide an explicit definition of small and medium commercial customers.
3. D.08-07-045 adopted 20 kW as the boundary between small and medium commercial customers, and 200 kW as the boundary between medium and large commercial customers.
4. PG&E's Small Commercial Rate Design settlement, adopted with modification in D.15-08-005, OP 7, requires PG&E to provide supporting data in its 2017 GRC Phase 2 for alternative upper boundaries of 20 kW, 50 kW, and 75 kW for its small customer class.
5. PG&E has not adequately supported its contention (in its Reply to Protests) that A-10 and E-19V should be excluded from some aspects of the studies ordered by D.15-08-005, OP 10; nor its contention that a 200 kW segmentation should not be applied in those studies.
6. PG&E's study should assess whether rate schedules A-1 and A-6 should continue to be set on a revenue neutral basis to each other.

THEREFORE IT IS ORDERED THAT:

1. Advice Letter 4708-E is approved, as modified herein.
2. Pacific Gas and Electric Company shall include scenarios 1-6 in Table 1 above, in the study required by D.15-08-005, OP 10.
3. PG&E's study shall examine:

(a) the appropriate cost allocation and demand charge or charges, if any, that should be imposed on small and medium commercial customers depending on their level and pattern of demand, including A-1, A-6, A-10, and E-19V,

(b) whether both coincident and non-coincident demand charges should be included in those rate schedules (or neither),

(c) separate cost allocation for A-1 and A-6, based on their rate-schedule specific demand patterns, and whether those rates should continue to be set on a revenue neutral basis to each other, and

(d) the effects of both gross and net load assumptions on its cost allocation.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on January 14, 2016; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director